

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ANKARA 004455

SIPDIS

SENSITIVE

STATE FOR E, EUR/SE, AND EB/IFD  
TREASURY FOR INTL AFFAIRS - MMILLS ANS MSCHWARZMAN  
NSC FOR MBRYZA AND TMCKIBBEN

E.O. 12958: N/A

TAGS: [EFIN](#) [ECIN](#) [TU](#)

SUBJECT: GOT PREPARING THREE-YEAR ECONOMIC PROGRAM

REF: ANKARA 3688

1. (Sbu) Summary: Earlier this summer, the Turkish Government began work on a 3-year economic program. An outgrowth of previous and existing policy planning vehicles, the 3-year program is a GOT economic policy program being developed with input from--but independently of --the IMF. According to post contacts, it is fairly broad in scope, encompassing the macro economic framework, budget planning and structural reforms but with particular focus on fiscal issues such as the debt stock and composition of expenditure. Its formulation is a coordinated interagency effort involving consultations with other non-governmental stakeholders. The GOT has not yet released its specific content or explained the modalities of its implementation. By working on its own program, prior to beginning negotiations with the Fund, the GOT may be attempting to demonstrate ownership of its medium-term framework. End Summary.

#### Antecedents

2. (U) Turkey,s State Planning Organization (SPO) has been crafting 5-year economic development plans since the 1960,s. The 8th such plan, running from 2001-2005, is currently in implementation. Since 2001 the EU has required Turkey to develop and update a Pre-accession economic program (PEP) that lays out the policy program that will be implemented to bring Turkey in compliance with both the Maastricht and Copenhagen economic criteria for EU membership. On August 4th, State Minister for Economy Ali Babacan made a statement reiterating the three-year program goal of meeting EU criteria. Finally, in December 2003 the Turkish parliament passed the Public Financial Management and Control (PFMC) law. This law requires that the GOT adopt a three-year planning framework in budget formulation beginning in 2006. The GOT,s new 3-year program is an outgrowth of all these elements.

#### Focus of the program

3. (Sbu) Turkish U/S of Treasury Ibrahim Canackci told visiting US Treasury officials that the program would be a &full program8, covering the macro framework, domestic and external financing, and structural issues. Others inside the GOT, however, have noted that the program will be focused on fiscal issues and the debt-to-GNP ratio in particular. Memduh Akcay, Treasury Director General for International Economic Relations revealed that under the program the government would target a specific ratio to be achieved and then implement policies to reach the target. The end goal is to bring debt-to-GNP in line with EU standards (60% of GNP). Officials at the Ministry of Finance and SPO focus more on the fiscal aspects, highlighting the three-year planning framework for the budget required by the PFMC law, and/or the potential for increasing investment expenditure in light of high unemployment.

4. (Sbu) In describing the three-year program as a &full program8, Canakci remarked that the &PEP to the EU must be a part of the three-year framework8. The PEP does have a heavy structural reform component covering issues such as privatization, the financial sector and rural development, among others. The structural reform agenda of the World Bank,s new Country Assistance Strategy (CAS) will also be coordinated with the program.

#### Process

5. (Sbu) The formulation of the three-year program is an interagency process coordinated and led by State Minister for Economy Ali Babacan. Treasury, Ministry of Finance, SPO and the Central Bank have worked together at a technical level to develop it. Canakci and SPO Deputy Under Secretary, Birol Aydemir, both noted the high quality of intergovernmental cooperation (a frequent theme of GOT economic technocrats). Aydemir even claimed that it was the best instance of

interagency cooperation he,d seen in his 17 years of working for the Turkish government. In addition to the interagency process Canakci explained that Babacan had consulted with outside labor and business groups, stating that, &Minister Babacan is consulting with all stakeholders8. He also outlined two other processes involved in the development of the program, the Council of Ministers process and the IMF process. At the ministerial level, Babacan is in an ongoing dialogue with other ministers, including Prime Minister Erdogan. On the IMF, Canakci said that completion of the 8th review of the Stand-By arrangement would &accelerate8 the three-year program.

#### Timing

16. (Sbu) It is unclear precisely when the GOT plans to present the new program. Turkish Treasury states that refinements are still ongoing in the context of the 2005 budget formulation process. The PFMC law calls for three year budgeting beginning in 2006 but Canakci explained that with the expiration of the IMF program in early 2005, this was moved up a year. The PEP is to be submitted to Brussels in November and will be attached as an addendum to the 2005 budget. (Note: technically the 2005 budget must be finalized by October 17th, 2004, but this does not preclude changes occurring after that date.)

#### IMF involvement

17. (Sbu) The Fund has had some, but not major, involvement the three-year program process. In fact IMF staff expressed concern that the program may be announced without them first being consulted. SPO Deputy U/S Aydemir told econoffs that the GOT presented a general view of a medium term macroeconomic framework to the IMF during the 8th review mission in June. He said the Fund was surprised and pleased with the work the GOT had done and that negotiations on the program would continue in September. This is in contrast to the GOT's initial approach. At an earlier stage, (reftel) GOT officials had started by asking the IMF how much financing might be available rather than first coming up with a program. The change in the GOT approach may be an attempt to demonstrate ownership of their medium-term framework prior to entering into negotiations with the Fund. In a recent meeting with US Treasury officials and econoff, World Bank Country Director Andrew Vorkink praised the GOT's development of its own program, precisely because it showed ownership. IMF Turkey mission chief Reza Moghadam led an IMF delegation visit to Ankara the first week of August, ostensibly to assist the GOT in preparing the PEP. In fact, the discussions were probably centered on a on a possible follow-on IMF Standby program.. Statements to the press in the past few days by Prime Minister Erdogan and Minister Babacan suggest that the GOT has decided to pursue a new IMF program. Post will report on the IMF program septel.

.  
EDELMAN